Renewable Northwest Project

Northwest Independent Power Producers Coalition
NIPPC

May 25, 2004

Mr. Stephen J. Wright, Administrator, A-7
Bonneville Power Administration
905 N.E. 11th Avenue
Portland, OR 97208

Dear Steve:

Your approaching decision on BPA's proposed large generation interconnection procedures ("LGIP") and agreements ("LGIA") is of profound interest to independent power producers ("IPPs") active in the Pacific Northwest. Representatives of renewable and thermal generators participated in the Transmission Business Line's (the "TBL's") review of BPA's response to FERC Order 2003-A. The importance we assign to this topic is reflected in these comments submitted jointly by RNP and NIPPC.

We fully appreciate the far-sighted leadership you demonstrated in alerting the region to the risk of a repetition of the West Coast Energy Crisis. Current weather conditions underscore the poignancy of your warnings about gaps between supply and demand. The following comments outlining our concerns are offered with your stated commitment to diversify the region's supply options in mind.

Definitions and Credits

After months of deliberation, BPA has still not clarified what it defines as "Network Upgrades" versus "Generator Interconnection Facilities." This confusion is compounded by the agency's reluctance to align its position with the position that FERC reasonably adopted in its recent Orders 2003 and 2003-A.

The confusion is confounded by the agency's reluctance to formalize publicly the implied policy that BPA staff has stated in contacts with resource developers, i.e., that resource developers that apply for transmission service are responsible for funding the up front cost of main grid Network Upgrades, for which they will receive transmission credits to refund amounts they advance to BPA. RNP and

NIPPC agree with the policy described by BPA staff for Network Upgrades, however we believe this policy must at a minimum be extended to interconnection facilities. The only acceptable alternative, one that makes sense for many system upgrades, would be conventional practice: BPA funding of the main grid upgrades with the costs folded into transmission rates. RNP and NIPPC believe that BPA's policy should be formally adopted by BPA, and extended in BPA's LGIA to those Network Upgrades necessary to interconnect a generator with BPA's transmission system. Adopting this policy does not bring additional costs to BPA's customers, and is a requirement for BPA to continue to receive reciprocity from other FERC jurisdictional and compliant utilities.

Timing Concerns

Our concerns with BPA's definition of Network Upgrades and the availability of Transmission Credits are elementary considerations affecting the ability of developers to continue forward with new generation projects. As BPA well knows, it is difficult enough to secure financing to develop a power plant. Not knowing which party is responsible for what costs and under what terms only serves to further complicate financing and thereby delay project completion.

The suggestion that BPA will address these issues in the 2005 TBL Rate Case, as Chuck Meyer indicated in his February 4th letter to the PPC, is of serious concern to our members. Apart from the dubious contention that transmission credits are rates rather than reimbursements, an extended delay in resolving this matter has serious implications for developers and the utilities looking to them to help meet load requirements. In effect, pushing a decision off to the next transmission rate case implements a de facto year and a half moratorium on new renewable and thermal power plant construction in the Northwest. A moratorium on new plant construction, coming on the heels of the depressed power market and delay in extension of wind power's PTC, is the last thing the IPP community and its utility customers need. While we contend that implementation of FERC's credit policy for network upgrades does not require a rate case at all, BPA must at a minimum avoid the delays of a full rate case by addressing this issue in an expedited 7(i) process.

Inequitable Dispute Resolution Procedures

One of the more troubling indications that the TBL, in this instance, is treating IPPs as second-class customers is the lack of any mechanism for dispute resolution in the proposed policy.

We understand that BPA is concerned about compromising its responsibility for assuring the reliable operation, planning and design of its system, but the blunt assertion of its authority (through not allowing review of its interconnection terms) is unfair. BPA should be able to protect its interest in reliability without withdrawing the right to dispute resolution.

The addition of reasonable Dispute Resolution procedures into TBL's LGIP is essential.

Double Charging

RNP and NIPPC believe that BPA is at risk of implementing an unfair and counter-productive policy. If BPA assumes that substation interconnection costs are directly assigned and are not eligible for Transmission Credits, then it will be in direct conflict with FERC's "and" pricing policy. Developers will be forced to charge off-takers for the costs of interconnection infrastructure while also paying for transmission service. IPPs will be double charged for transmission service. Because transmission service begins at or beyond the point at which a generator is interconnected to a transmission provider's system, TBL's proposal will effectively double charge the region's customers for BPA transmission service. We can't imagine that this is BPA's intent.

Political Dimension

The excessive "deviations" from FERC Order 2003-A that TBL proposed will have an additional unintended consequence. In addition to the delays it will force on new plant construction and the costs it will add to delivered energy through double charging, the policy will shine a spotlight on BPA's desire to set itself apart from other owners and operators of large transmission systems. By essentially giving itself preferential treatment, BPA will invite negative attention and create divisions among Northwest utilities at a time when FERC expects the region's utilities (including BPA) to be working together to solve the region's transmission problems. Not only will BPA risk compromising its reciprocity status with FERC jurisdictional utilities, the agency will also add grist to the mill for those that wish to stand in the way of BPA's plans for further infrastructure investment or other worthy initiatives that the agency envisions. No one is more acutely aware than you are of the constant risk the Northwest takes in running contrary to the prevailing wisdom of the Northeast and Midwest congressional delegations.

But more importantly, what does this ill-conceived policy say about your own insistence on regional resource diversification or, for that matter, the essential thrust of the Regional Dialogue? The issues that we raise here will have an economic effect on all of BPA's customers in the NW. IOU's and public utilities alike will need to acquire new resources in the future, and they will need to work with BPA's TBL in order to facilitate many of those transactions. Any additional costs incurred by developers due to double charging for network upgrades and delays, will be passed on to customers.

We all appreciate the interconnectedness of transmission policy with the cost and reliability of electric power. As the region wrestles with the future of transmission at Grid West and the future of new supply through the Regional Dialogue, this is not the time to chart a policy that runs counter to both.

Thank you for your consideration of our concerns.

Sincerely,

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